(From the Financial Times, April 28th)

SIR THOS. WHITE PUTS HANDS ON THROAT OF CANADA'S PRODUCTIVE CAPACITY BY INIQUITOUS TAXATION

His Budget Amendment Will Defeat the Very Purpose For Which it Was Conceived, By Striking Directly at Those Who by Concentration of Nervous Energy Have Made Efficiency Spell Large Profits—Simply a Tax on Experience and Administrative Capacity — Too Much Unfair Talk of Profiteers, When Industrial Canada Has Provided the War Funds and Other Affiliated Patriotic Requirements.

(By T. Kelly Dckinson.)

Sir Thomas White, by his extraordinary scheme of profit taxation, has simply put his hands on the throat of Canadian productive enterprise and if he does not squeeze the country's business to death, he will leave it with little or no vitality to meet the tremendous obligations which the country has entailed.

In simple English, his taxation scheme is all wrong, and will have unfavorable ramifications which may not at the moment meet the casual eye. Before going further into this question, it may be necessary to refer to the all too-ready accusation that to criticise a war tax- is an unpatriotic act. That sort of thing comes altogether too glibly to the mouths of those who claim that because a company is prosperous it necessarily must be a blood-sucker and a betrayer of its country. The record of our industrial companies stands clear enough in the enormous contributions to war loans, Patriotic, Red Cross and other charitable funds. It is not too much to say that the success of the successive war loans was due very largely to the participation of our successful industrial companies. Therefore, let it go without saying that the owners of Canada's industrials are no less patriotic than the individual who deducts a ten dollar bill from his salary three or four times a year, for patriotic purposes.

The first objection to the 50 and 75 p.c. profit tax is that it is not equitable. It discriminates against one small group of Canadian citizens and leaves the great bulk severely alone. Surely a man with an income of $5,000 or $10,000, or more, could pay $50 or $100 a year to the general funds of the nation, without seriously affecting his comfort or his future, and there are hundreds of thousands of men in Canada on such a salary basis. The whole nation should bear the burden of taxation, as it should bear the burden of trench fighting.

Will Affect Production.

The second objection is perhaps more serious.

It refers to the prospect of a very considerable reduction in the gross business of the country, not because our industrial leaders will in a spirit of reprisal deliberately curtail their output, but because the force of circumstances will bring this about.

I have frequently referred to the fact that war orders are not in themselves a source of profit. The profit in most cases is secured by efficiency and ceaseless application of executive and departmental heads. Now, there is a psychology in this form of application which has a very practical side. It is seen to-day in the broken health, the shattered nerves, of those so-called "profiteers. "The intensity of high-speed operations has not only reduced costs and provided profits, but it has sapped the energy of our industrial workers. There was an incentive —there were two incentives: Pride in national service, and satisfaction in the profits that a steady application produced.

Is it reasonable to expect these executive officers to continue the prevailing policy of eternal grind, even on patriotic (that much abused word) grounds, if the Government is to take any way from 50 to 75 p.c. of the net profits?

The impulse behind the great industrial activities of the past two years will be removed, and with whta result? A very much reduced productive energy (and Sir Thomas White never tires of preaching Production —"and more Production") which will substantially reduce the whole buying power of the country? A reduced production means reduced exports, and naturally a heavy shrinkage in new money from abroad. That is where the 50 and 75 p.c. profit tax is going to hit the country.

Big Share Already.

I would suggest to anyone who is inclined to disbelieve the statement that Canadian companies have not been remiss in their duty towards national financial requirements to look up the recent files of the Financial Times or any other newspaper and check off the contributions of companies and their executive officers. It will be found that the bulk of the moneys received in the country by Sir Thomas White on behalf of war loans, and other special war appeals has been provided by the so-called profiteers. Through a hundred and one other channels the revenue secured by industrial Canada has gone into war funds. It is clear, therefore, that Sir Thomas White and his Government have enjoyed all the privileges of the profiteer without the accompanying risk of capital or waste of energy.

It would seem that if this extreme taxation scheme is persisted in, and production is consequently lessened, there will be a smaller source from whence to draw the additional funds required for war purposes. Less money will come to this couuntry because we will be sending fewer goods out of the country. Under the original profit taxation of 25 p.c., after 7 p.c. dividend allowance, the companies coming under the operation of this act could still see some daylight ahead of them, and consequently their whole energies were concentrated upon bulk output and gross income. If this were not a direct benefit to the country at large, and indirectly to the Government, then the success of the Government financing during 1915 and 1916 will have to be explained in some other way.

Hits the Paper Industry.

The paper industry will be very seriously affected by this profit tax amendment, owing to the fact that the companies are at present earning a very large percentage on their capital employed. It may be asked why should a paper company pay some 50 to 75 p.c. of its profits as war taxation, when such profits have come entirely through American channels, and have been only remotely associated with war conditions? The extraordinaray prosperity in the United States has created an abnormal demand for the product of Canadian pulp mills, and as the demand has been very much greater than the available supply, prices have consequently advanced at a high rate.

Canada has been pathetically slow in developing what should years ago have been a great national industry, but when once started in this line of manufacture there can be no doubt of the determination of our capitalists to make Canada the largest paper producer in the world.

What do we find to-day? We find that just as the manufacturers have attained a long coveted connection with foreign buyers, after a period when their nose was too close to the grindstone to be comfortable, they are asked to give an absurd proportion of legitimate profits, the larger portion of which should be used to cultivate a future foreign business, to the Government!

Much the same consideration applies to other manufacturers who have been conserving their resources with the object of maintaining Canada's favorable balance of trade when war is over.

The abnormal profit taxation will prevent entirely the inflow of American industrial companies. It was thought that an Imperial Preferential tariff would bring American houses to Canada, but such a tax as proposed by the Finance Minister will indefinietly postpone this movement.

Not One Good Feature.

There is not a single good feature about the budget amendment. By its very excesses it will defeat the purpose at which it aims, as there are a great many more companies who are operating on the 30 to 50 p.c. profit basis, on strictly legitimate lines, than is generally realized by the public. It surely should not be a crime for a company to make even a 100 p.c. profit, if such profit is accomplished by the application of business enterprise and courage. If such a profit represents a crime against the nation, then the margin of profit obtained to-day by the farmers of Canada would justify the hanging, drawing and quartering of every farmer who sells his product, normally valued at 80c, at $2.40 a bushel.

If Sir Thomas White wants a percentage of war profits he should take that percentage from all war profits.

(*From the Financial Times, May 5th*)

CANADA EXPECTS THIS DAY THAT SIR THOS. WHITE WILL DO HIS DUTY AND WITHDRAW INJURIOUS TAX PLAN

Action Must Be Quickly Taken to Offset the Tendency to Cancel Machinery and Installation Orders by Canadian and American Firms---One Montreal Firm Withdraws $1,000,000 Outlay on Additional Plant — An American Firm Cancels Plans To Erect $2,500,000 Plant Here, Employing 2,500 Men, and Another Firm Cancels Large Order for Lathes to Replace Worn Out Machinery---A Serious Blow at Canada's Whole Buying Position—Affecting Labor and Capital Alike.

(By T. Kelly Dickinson.)

The eyes of the whole business community of Canada are fixed steadfastly upon the imposing figure of Sir Thomas White, Minister of Finance. It is not alone the company that will be subjected to the abnormal tax proposal that is looking for a very considerable modification of the proposed taxation, but every man who has the interests of the country at heart is praying fervently for some change in the Ministers policy. Both the manufacturer and the wage-earner, not to say the wholesaler and retailer, are vitally concerned in the tax which, if put into law, will so materially reduce the productive capacity of the Dominion.

As I stated in my last week's article, the ramifications of this proposed tax will be found to be almost beyond calculation. During the past week I have had absolute evidence of the process of curtailed production. There is one case where a company, with head offices in Montreal, had provided, through an American banking firm, for the outlay of $1,000,000 for a much-needed extension to its present plant. The day after the announcement of the 50 and 75 p.c. profit taxation the directors held a special meeting and decided indefinitely to suspend this constructive operation.

This $1,000,000 cash appropriation would have represented not only the expenditure of that money on account of new machinery made in Canada, but it would have given employment to several hundred workmen during the constructive period. When completed it would maintain a permanent staff of from 100 to 150 workers. Let me emphasize the fact that this company is not operating on war orders, and that it was preparing to provide a maximum capacity such as would permit the management to compete with American houses for European trade after the war.

U. S. Firm Stops Work.

Another unfavorable development of which I have positive information was the determination of a large American industrial company to build a subsidiary plant in Canada. The first cash appropriation allowed by the American directors on behalf of their Canadian subsidiary amounted to no less a sum than $2,500,000. This plant, when completed, would have provided employment for between 2,000 and 2,500 men. When the Finance Minister's 50 and 75 p.c. taxation scheme was announced the American executive telegraphed the Canadian representative that the deal was off, and to advise the owners of the site on which the property was to be erected that the option on the property would not be exercised.

That is the way to kill the goose before it has a chance even to build a nest wherein to lay its golden eggs.

It also emphasizes the point that the ramifications of this unfavorable taxation are greater than appear on the surface. The owner of this particular real estate, for instance, will continue to hold his barren land, although there may be some consolation in the knowledge that this land may be

turned over for the cultivation of cabbages and peas, and that the excess profits on the same will still be available for Governmnt taxation.

Yet another firm, which had contracted for a number of new lathes to replace the lathes more or less worn out, decided to cancel the order and endeavor to do the best it could with the impaired and worn out machinery. Even the lay mind will have no difficulty in grasping the significance of this extraordinary change of industrial policy. Even the lay mind will immediately realize that it means less production, impaired efficiency, and, consequently, a smaller pay roll and a reduced buying power for the country.

Tax on Enterprise—An Example.

I would like again to draw the attention of Sir Thomas White to the fact that a tax on excess profits is a tax on enterprise. This is no mere figure of speech. On Saturday night last, I had a long-distance call from a manufacturer operating about 100 miles from Montreal. This gentleman stated that he heartily endorsed the viewpoint of The Financial Times on this taxation question. He said that last year his company had made a profit of 175 p.c. on its capital, but added that the capital of the company was extremely small, and that in normal periods they were able to earn 30 to 40 p.c. on the small capital. That the huge (on p.c. basis) profit of last year was not made through high prices for the firm's commodity, but by sheer individual application to the work, may be seen in the fact that before the war the company operated its plant on a basis of 55 hours per week, while for the past two years the plant has been running 24 hours a day with the exception of Sunday. There is a big difference between 55 hours and 144 hours, and it illustrates the point that profits to-day are being made by strict application.

In the above case the company actually is selling its product below the price paid for a similar product in England.

What is the Answer?

Another company, in the same district as the company mentioned above, is operating on the same product at the same price, and is earning not more than 15 p.c. on its capital. What is the answer? The answer is, that the man who lives on the lathe, and sweats blood in the desire for an increased national production, who pulls down his overhead by building up a great bulk output, is penalized for his pains, while the other man, perhaps on account of some personal deficiency, makes just enough to make life comfortable, yet adds little to the payroll or the export trade of the country, and has no worries about 50 and 75 p.c. surgical operations.

A Gas Attack at Ottawa.

It is unfortunate that not one criticism has been raised in Parliament against the tax, in the Budget discussion. The important issue has been befogged at Ottawa by the elevating but futile controversy on Free Wheat. The Opposition wanted Free Wheat, but are annoyed because the Government stole their Thunder. It may be good politics (if there is such a thing as "good politics") but it is rotten tactics to make a gas attack on the flanks when the centre of our strong economic position is so seriously threatened.

Profits and Empire Finance.

Sir Thomas White has done magnificent work for the Dominion of Canada. He has been able to borrow in New York at will, he has been able to borrow $200,000,000 from the people of Canada, he has been able to give to Great Britain a credit of $200,000,000, and he had a huge revenue from Canada by way of direct and indirect taxation.

This tremendous achievement, especially our home loans and our credits for Mother England, was due entirely to the enormous supply of foreign money which went into general circulation through the 24-hour-working-day operations. If this profit tax is the means of reducing the working day to one or two shifts, it is easily seen how the reduced payroll and the reduced requirements of raw material will affect the buying power of the country!

Will Cost Us $200,000,000.

It is no exaggeration to say that the 50 and 75 p.c. excess profit tax will affect the buying power of Canada to the extent of at least $200 000,000 a year, which figure includes the loss of the proposed American factories on this side of the line. Sir Thomas White has an opportunity to save this money for Canada. If, on the other hand, he insists on his 50 and 75 p.c. taxation he will be compelled to reduce his estimate of national revenue, whereas, if he, with the strength that we know is in him decides to let well enough alone, and take his 25 p.c. tax on excess profits, he will find that Canadian and American manufacturers will not be compelled to readjust their plans for the present and after-the-war trade development. He has everything to lose by insisting on the present unreasonable tax. He and his country have everything to gain by removing this taxation, and thus allowing the country to consolidate its financial position, so as the better to be able to meet our increased fixed charges, our pensions, and our desire to be a nation, and with the nations stand.

(*From the Financial Times, May 5th*)

MORE SERIOUS FACTORS IN NEW PROFIT TAXATION

Chartered Accountant Points Out That Resolution Implies That Profits Are in Cash and Readily Available, Which is Not the Case as Any Balance Sheet Will Show — Likely to Increase Borrowing.

Editor, Financial Times:

Sir:—The increased tax on profits, as promulgated in a resolution amending the Business Profits War Tax Act of 1916, appears to me to be open to serious criticism in two respects, and I make this criticism with due regard to my patriotic duty.

1. The resolution implies that all businesses earning profits in excess of 20% are necessarily doing so because of the munitions and other war supply business circulating in the country. As a matter of positive fact, outside of the large and waterlogged corporations, the average medium-sized business was earning more than twenty per cent. upon its capital actually invested before the war.

In order equitably to tax the excess profits being earned because of war conditions, the proper method would be to take the average net profits during a series of years before the war, allow this amount as an exemption, and then take a fair proportion of the balance consistent with the demands made upon all producers.

2. The resolution also implies that the larger portion of all profits is carried in cash or easily realizable investments. In general, a business whose output remains more or less stationary, does not earn more than an ordinary return on its capital investment. It will be admitted that, generally, a business earning large profits does so because of expanding output, and that these profits normally are represented by an increase in working or fixed assets other than cash because of this expansion. In other words, to meet the expanding trade, the profits become surplus invested in the business. A study of any balance sheet will demonstrate this point. The majority of our businesses have been built to large proportions because of this constant accretion of profits.

Now the effect of this excess profits tax will be to cause many firms to borrow money with which to pay the government! It is a really serious situation that denudes the business of its cash working capital. How can business men follow the advice of the Finance Minister "Provide for the depression coming after the war," and at the same time be taxed to the extent of all their cash resources? Yours, etc.,

A. E. Middleton Hope, C.A.

CANCELS CAPITAL OUTLAY.

Editor, Financial Times:

Sir:—Apropos of your strong article on the profit taxation amendment, it is somewhat inconsistent for the Finance Minister to go to such pains to impress upon the Canadian public the necessity of conserving their resources, while at the same time he proposes placing a burden on the successful enterprises of the country which hinders them from doing exactly what he advises should be done. You are right in saying that the proposed taxation will affect the productive capacity of the country. My own company, for instance, has decided to cancel the expenditure of $250,000 on new equipment, which money would have been expended among contractors, machinery manufacturers, lumber firms, and of course among a large number of working men. It would also give steady employment, on the completion of the plant, to about 150 men and women, and, I may add, this expenditure was not proposed to meet war conditions, but rather to put the company in shape to meet the export trade when peace is declared. I enclose my card,

Yours, etc.,

"SMALL OPERATOR."

THE RETROACTIVE PROVISION IS VERY BAD.

The retroactive provision of the amended excess profits taxation is also another feature which appears not to have been given mature consideration. Many firms had arranged extensions to plant and had paid interim dividends, and in other ways absorbed a large bulk of the available profits. In such cases these companies may be compelled to borrow from the banks to pay the profits taxation—a most undesirable contingency in the circumstances.

Other firms have put a large proportion of their profits into raw material, in order not to be caught napping on a rising market, with large contracts for specific delivery dates. If due notice had been given of the new taxes the companies would not have expended the available excess profits on new machinery, raw material and interim dividends. They would have conserved their resources and the expenditure of these funds would not have gone into general circulation. As it is they have eaten their cake and the Finance Minister wants it.

(*Editorial from the Financial Times, April 28th*)

THE BUDGET

The Budget brought down by Sir Thomas White this week is not a pleasant document. In 1915, when it was generally believed that the war would not be a very long affair, and when the embarrassments of the Dominion Exchequer were chiefly due to nothing more serious than a temporary and natural falling off in imports and therefore in imports duties, the Government enacted a number of small taxes upon various phases of business activity and there was no great objection raised because it was felt that both the situation and the expedients were temporary.

By 1916 the effect of war orders was beginning to be visible in the shape of large profits in certain well-managed and enterprising companies, and the Finance Minister, leaving all his other temporary expedients in force, added to them the further expedient of a special tax of 25 p.c. of profits above the limit of 7 p.c. on invested capital. That this was an extremely rough-and-ready way of raising money was pointed out at the time, but again it passed without violent criticism on the ground that it was once more a temporary expedient and that those who paid it would still retain a substantial reward for their enterprise, courage and ability. Now in the third year of the war, with a not unlikely prospect of its continuance for another two or three years to come, the Finance Minister, still leaving in force his earlier expedients and still evading the task of radically reorganizing the basis of taxation, has merely added to his demands upon those who happen to be successful a further demand which takes away from them all but one-quarter of whatever they may be able to earn this year over and above 20 p.c. on their investment.

We de not propose to enter upon a defence of, or an appeal for sympathy for, those concerns which are making profits of 15 and 20 p.c. upon the capital employed. In certain lines of business, involving large fluctuations and extreme risks, such profits are by no means an excessive reward for the speculator who puts his money and his brains into them. There is this radical difference between Sir Thomas White's measure and that which is in force in Great Britain, that the British Act exempts, not an arbitrary 7 p.c., but a profit allowance based upon the two best of the three preceding years, so that the taxed corporation is assured of a normal profit corresponding to the nature of its business, before the Excess Profits Tax comes into force at all.

But to our mind the gravest objection to Sir Thomas' present proposal is not that it bears hardly (and, in the absence of any general scheme for taxing non-corporate earnings, very unjustly) upon certain companies and certain fluctuating industries. It is a much more serious objection than that. It is that it takes away all financial incentive to abnormal effort, to high-pressure production, to maximum efficiency in the use of a given amount of plant and equipment. It will therefore inevitably work towards the curtailment of the total volume of production (almost wholly concerned with commodities of use on warfare) in the industrial establishments of Canada. It will reduce profits; but, far more than profits, it will reduce the volume of turn-over, the payroll of wages and salaries, the movement of freight on the railways, and last but not least that stupendous export balance of trade which has been the salvation of Canada during the last two years.

Large profits at the present time are being made by the operating of plant for twenty-four hours a day, at its highest efficiency, thus giving, as compared with ordinary times and ordinary methods, an immensely increased volume of output with no increase in overhead costs. There is no need to waste space in elaborating the point that this maximum output is in the highest degree beneficial to the workmen, the transportation interests, the tradesmen, the banks and even the Exchequer of Canada, and to the cause of the Allies, as well as to the owner of the plant himself. It is obvious to the meanest intelligence, although some intelligences are very mean.

There are certain risks and certain disadvantages about this high-pressure business which have not been too greatly compensated by the three-quarters share of excess profits left by the old legislation, and will certainly not be outweighed by the one-quarter share which is all Sir Thomas now allows. Only those familiar with industrial operations can realize the tremendous strain upon all parts of the organization which is involved in keeping up the full capacity of a plant going for 24 hours a day—or as near to it as the nature of the business will allow. There are special risks attendant upon this 100 p.c. output. The slightest hitch in any one of a long series of operations may mean the holding up of every other department and a heavy loss in internal delays, to say nothing of possible penalties for non-delivery, and the inevitable dissatisfaction of customers. Moreover all risks in industrial business are proportioned to the turn-over, not to the capital employed, and there

is small inducement to double the turnover and double the risk, if the company is going to bear all the loss and the Government is going to grab three-quarters of the gain.

We do not know what amount the Government will derive from this 50 and 75 p.c. supertax; we do not suppose the Government has any very clear ideas on the subject itself. Probably the amount will not exceed a few million dollars. It appears to us extremely likely that if the Government collects five million dollars by this method it will at the same time be discouraging production amounting to hundreds of millions; for in effect we believe that the Government is taking away from Canadian industrial operators all inducement to book business in excess of what may be needed to produce 15 p.c. on the capital allowed them by the tax-collectors.

(*Editorial from the Financial Times, May 5th*)

A PERNICIOUS TAX.

Every one of the grave defects inherent in the original 25 p.c. Excess Profits Tax, which The Financial Times pointed out last year while tolerating the 25 p.c. tax as a means of raising revenue in an emergency, is retained and multiplied many times over in the new 50 and 75 p.c. measure which is now proposed by the Finance Minister. The retroactive feature, a most pernicious feature of any legislation, is in full force in the new law, with this tremendous difference, that whereas a 25 p.c. retroactive tax is likely to find its victim with at least that much, or nearly that much, of his profits still undistributed and uninvested and therefore available for payment to the Treasury, a 75 p.c. tax on profits already collected is absolutely certain to fall on companies which have nothing like that proportion of their profits in cash or liquid reserves. Profits to-day are the result of expanded business, and expanded business means heavy buying of raw materials to guard against rising prices. Falling as it does on profits made in any fiscal period ending after December 31, 1916, it strikes the already completed or almost completed years of those numerous companies which make up their accounts between January 1 and June 30; and it gives to their competitors whose fiscal years are only just begun an undue advantage in enabling them to adjust their business for the rest of the year with an eye to this astounding tax.

Advocates of "squeezing the profiteers" will doubtless make capital out of the fact that the British Government has raised its Excess Profits Tax from 60 to 80 p.c. But as we have repeatedly pointed out, the British Government has taken proper precautions to ensure that what is taxed shall be really excess profits, whereas the Canadian Government has done nothing of the kind. In Great Britain exemption is accorded to the average profits of the best two years out of the preceding three years, thus ensuring that the company or partnership will be permitted to pocket profits on the scale to which it is accustomed in good years, no matter whether that scale be 7 p.c. or 20 p.c. or 50 p.c. Since our last issue several instances have been brought to our notice of Canadian companies which have been accustomed in good years to make profits well in excess of 20 p.c., and are entitled to such profits either on account of the risky character of the business or the personal efforts put into it by officers who are large shareholders (in many cases the only shareholders) and who have preferred to look to the dividends or the enhanced value of the property as their reward, rather than to demand a salary proportioned to their efforts and abilities. In England such concerns are properly protected; in Canada they are treated as if they were entitled to no more profits than, say, an old-established, absolutely safe, self-running public utility.

Most taxes on business, when equitably distributed, have little effect upon anybody but the ultimate consumer, because they correspond roughly to the volume of output, and if they penalise anybody it is rather the incompetent producer whose lower volume of output gives him less opportunity to charge the tax to the consumer. But this tax is a direct blow at the most efficient producers in the country, the men who are turning out the greatest volume of goods with the least amount of capital. Its effect (so far as it is not merely a confiscation of profits already earned) will be one of two things: either they will cut down their output to the point where they will cease to come under exorbitant taxation, or they will if possible increase the price of their commodity so as to recoup themselves for the increased tax. In the great majority of cases these companies are selling either to the Canadian Government or for export, and cannot make any material alteration in prices; in these cases there will simply be a reduction of the total volume of production in the country. In cases where the taxed companies are in a position to raise the market price, that is to say in cases where the Canadian people are the consumers, the price will probably be raised; but it will be raised not merely on the output of the taxed or efficient companies, but also on that of the whole group of less efficient companies in the same line of industry, whose profits will be enhanced at the expense of the people of Canada without necessarily requiring them to pay any more taxes to the Dominion Exchequer. Politically this may be a very clever, not to say

Machiavellian, device, for it lines up the whole army of the less efficient in favor of the tax which falls exclusively on their abler brethren. Economically it is as pernicious as a tax can possibly be.

(*Editorial from the Financial Times, May 12th*)

NOT "BIG BUSINESS"

There appears to be an erroneous impression abroad that the Excess Profits Tax now proposed by the Dominion Government is simply a tax on "Big Business," and "Big Business," as is well known, receives no sympathy from anybody. It is important, therefore, to make it clear that the new tax will fall much more heavily, and much more destructively, upon those "small businesses" which owe their success to their small capitalization and the personal efforts of their owners, than it will upon the great corporations.

In the case of the great corporations, the exemption of 7 p.c. upon the capital actually employed does really represent something like the normal earning power of that capital, and in cases where profits on a much larger scale are being made it is, broadly speaking, true that they are abnormal, and would be taxed under the more correct British theory of excess profits taxation as well as under the ill-considered Canadian definition of the same. We do not argue from this fact that in the case of large corporations a confiscattory tax upon such profits after they are made, accounted and expended is either just or wise; but it is a tax upon excess profits in the proper acceptance of the term.

But there are scores and scores of business enterprises, employing the bare $50,000 or but little over it in many instances, whose exemption is in no wise proportionate to their normal earning power. Our attention has been drawn to a number of such firms or companies during the last two weeks, and they are typical of a great number more whose owners are remaining silent because they fear to incur the enmity of Great Persons by speaking out. These small companies, usually family affairs or the outgrowth of private partnerships, have never had any reason to make their visible capital any larger than the most conservative estimate would make it. Their plants and properties, unlike those sold to new corporations with a view to flotation among the public, were transferred at a rock-bottom valuation. There is nothing in their assets for goodwill, or for the acquisition of services, or for trademarks or contracts. Their salary lists, as has already been pointed out in these columns, are abnormally low, because the most valuable employees are themselves, with their families, the owners of most of the stock, and prefer to take what they make in dividends or even in accretions to the value of the stock which they own. In such companies, profits of 20 p.c. instead of being Excess Profits and properly liable to taxation on Excess Profits, are merely a normal reward of the energy and experience of those who make them. To take away one-half of part of these profits and three-quarters of another part is not merely imposing upon them a most undeserved burden, but is unfairly handicapping them in competition with companies less efficiently operated, less conservatively capitalized, or just sufficiently smaller to bring them below the $50,000 exemption.

These companies are not "Big Business." They are small businesses, the kind of businesses built up by one man, or a couple of brothers, or two or three partners, with ambition, energy, foresight, and the willingness to work hard for a number of years and draw small incomes in order to lay the foundations of future power and fortune. They are the businesses which have made Canada what she is today. The Finance Minister proposes to make them pay for the war, while the man who, instead of putting his strength and brains into the building up of business for the future, merely collects all he can get for his services from year to year and spends the resultant income in high living and unproductive display is to be allowed to go scot free, because, forsooth, "profits" are easy to tax and "income" is not.

(*From the Financial Times, May 12th*)

THE NEW WAR TAXES.

A Little Elementary Economics for the Toronto Daily Star, re Overhead.

(Toronto Daily Star).

"The Financial Times of Montreal continues its vigorous attack on the new war taxes. In Saturday's issue, besides a long editorial and a special front page article by Mr. T. Kelly Dickinson, president of The Times Company, there is a whole page of original and contributed matter. Munitions of war are being lavishly expended.

The main argument is that the taxes will

discourage enterprise. Mr. Dickinson refers to the case of a company which last year made 175 p.c. profit on its capital. The capital was small, and in normal periods the profits were from 30 to 40 p.c. The profits of last year, it is said, were made, not by high prices, but by "sheer individual application to the work." Before the war the company operated its plant 55 hours a week; it is now running 24 hours a day, except Sunday.

Let us examine this case. Why should an increase in the hours of labor result in increasing profits five-fold? One can, of course, understand an increase in the volume of business, but if the price has not been increased, why this huge multiplication of profits?

The answer must be that while more men are working and working harder, neither the wage bill nor the other expenses of the concern are growing anything like as fast as the return in profits. The whole of the extra profits, 135 or 145 p.c., are easy money.

What is meant by "sheer application"? The sheer application which increases production is that of the workmen and salaried officers of the company. But evidently they are not getting the money, or the margin of profit would not be so large. The profit goes to the profiteers, who grow rich on the labor and skill of others.

Capital which will not enter Canada except by promises of such huge profits will have to stay away. They are not an incentive to industry, but a temptation to laziness and greed. It is the man who makes moderate profits who works hard to put his business on a paying basis.

Furthermore, if such profits can be made out of war supplies, or out of any kind of industry, it would be well for the Government to consider operating them, so that the people may either receive the return, or obtain the goods at a reduced price. The policy we ought to aim at in this country is the encouragement of industries which pay good wages, charge moderate prices, and are satisfied with moderate profits. Every dollar of excessive profits is a public loss. It means money wasted instead of being used in production. It means the building up of huge fortunes, and the encouragement of senseless luxury and ostentation. In uselessness and mischievousness, it is economically of a piece with gambling.

EDITOR'S NOTE: The Toronto Daily Star asks, and its entire editorial is based on the question: "Why should an increase in the hours of labor result in increasing profits five-fold?" The answer is almost too elementary to waste time over, but here it is in as few words as possible:- Keeping the capital investment occupied 24 hours a day instead of 8 hours, enables a company to produce three or even five times more than its normal output, without any increase in the overhead. If the Toronto Star were publishing a morning newspaper as well as its evening edition, it would quickly see how its overhead charges on the evening edition would be reduced perhaps as much as 50 to 60 p.c. Again, if the Toronto Star were running its newspaper presses (which probably entailed a capital investment of $50,000) for 24 hours a day instead of only 2 hours in the afternoon, what would be the condition of the newspaper's treasury? It would be right in line for the Finance Minister's 75 p.c. profit extraction. And that is too awful to contemplate. If this is not clear enough we will be pleased to send our office boy to Toronto to go further into the matter.

(From the Financial Times, May 12th)

DAILY EVIDENCE OF CURTAILMENT.

That the new Canadian tax programme is a radical measure, and that it is not based on a scientific study of production or consumption, is the opinion gaining ground throughout the Dominion from day to day. That it is manifestly unfair, is demonstrated by instances innumerable. In one case a local dealer operating on a small scale, paid, under the initial business tax levied by the Government, a sum of $6,000, while large manufacturing plants in the same line of business and with millions of capital contributed not a single penny to this tax.

Two Cases in Point.

Still another instance demonstrates the ill-effects this new tax legislation is having in the matter of increased output: A well known manufacturer in Montreal, operating a moderately large manufacturing business, paid out $8,000 under the previous tax. Asked how the latest taxation method would hit him, he said: "Well, it will make no difference. I will not pay any more than under the previous tax law."

"How is that?" he was asked.

"Well, what is the use of having my men work longer hours, increasing my operating charges, and yet not make any more than I did last year?"

It may seem remarkable, but this idea prevails in an astonishing degree throughout local trade circles, and if carried into effect, it needs no great amount of explanation to figure out the results as regards less production, which means less profits, and, of course, less wages.

(From the Financial Times, May 5th)

MORE REASONS WHY NEW PROFIT TAX IS AN INJUSTICE

Correspondent Endorses Financial Times' Article and Points to Cases Where Success Has Been Earned Only After Strenuous Effort — Wages Will Decrease and Labor Lose Great Opportunity.

Editor, Financial Times.

Sir,—Permit me to congratulate you on your very comprehensive criticism of the new excess profits taxation, and to allow me a little space in your valuable paper to express some of my own opinions. In the first place, what do excess profits mean, and what is the meaning of a tax on excess profits beyond reasonable bounds, if it is not a tax on enterprise? It must be remembered that the successful construction of any business, and the piloting of this business through the breakers that from time to time are encountered in industrial life, requires nowadays the application of a talent bordering on genius.

In our time there is no such thing as a business carrying itself along, like ice floating down a river, or a toboggan shooting down a slide. It requires constant and continual thought and enterprise. Modern science, coupled with ability, makes for success in business life, which is nothing more nor less than a profitable return on money invested, and the greater the ability in handling the business the greater the return.

Government Shares Not in Losses.

Now, granting this, where do we arrive on the question of this taxation? Take for instance the Laurentide Company, one of the largest and prosperous concerns of the country. When this concern went into the power development business, which meant an expenditure of from seven to eight million dollars, it came upon a critical period with the beginning of the world war, and had its resources not been husbanded, and had the men behind not been big enough, disaster would have followed, with its consequent loss to thousands who had invested their money in the company. Now you might say with all warrant that it was a certain genius that carried this company to its present splendid condition, where failure might have been disastrous. The Government now will take a very considerable proportion of this company's earnings, but, and this is an important point, it would have had no share in the loss.

Take another instance, the milling companies that own grain elevators all over the country, to which the farmers are continually bringing wheat, which is sold to the companies. This grain is bought for the reason that the companies must always have a large supply of wheat on hand; it is their business to anticipate the course of prices, and if to-day one of these companies has say 2,000,000 bushels of wheat on hand at $1.50, with wheat selling at $2.50 to $2.80 it will have made over $2,000,000 on which it must pay the Government a very large percentage. But these companies have been buying wheat right along at gradually advancing prices—they must keep supplies well ahead—and if the war were to end suddenly, or a year from now, and prices should drop $1.00 to $1.50 (and there is every likelihood of such an occurrence), then it is only fair to ask would the Government guarantee excess losses? And again, it is to meet these losses which are bound to come from time to time that the companies need a large reserve, the latter being an absolute essential of the milling business.

Other instances may be quoted, such as the C. P. R. Here is a company, which, through the genius of its management, has been husbanding its resources, and when the critical period came along at the beginning of the war it weathered the storm, while other large transportation companies went to the brink of disaster. Now this company will have to submit to excessive taxation, which amounts to nothing less than a tax on enterprise.

Make Taxation Reasonable.

No one will object to a fair taxation, distributed on a proper basis, but to take a large percentage of the earnings of a successful enterprise is to hinder industrial advancement. It must be borne in mind that such taxation will result, if not in a cutting down of expenses, at least in a tightening of the purse strings in this connection, and here the worker suffers because of the fact that his salary is held stationary, where otherwise he would benefit by the steady progress of his particular company. Yours, etc.

Investor.

(From the Financial Times, May 12th)

BUSINESS MEN OF CANADA DEMAND A "SHOW DOWN" BY FINANCE MINISTER WHOSE NATIONAL STATUS IS AT STAKE

They Simply Won't Stand For The Iniquitous Excess Profits Taxation Amendment — Canada's Manufacturers Exported in 1916, $242,000,000 of Goods Against $249,000,000 of Farmers' Products — Thus Sir Thomas White, While Trying to Appease The Farmer With Free Wheat, is "Bucking" a Faction That Has a Full Half Interest in Canada's Trade Prosperity — Finance Minister's Real Capabilities Put to a Test Before Full Jury of Retailers, Wholesalers, Manufacturers, and Even Wage Earners.

(By T. Kelly Dickinson.)

Time is flying. And as yet we have had no indication from Sir Thomas White that he is prepared to recognize the sincere and legitimate opposition to his budget amendment—except, perhaps, a shrug of his broad shoulders. A shrug of the shoulders, however, is not good enough. This is too serious a matter in Canada's business affairs to warrant it being put to one side without proper consideration of criticism. The whole of industrial Canada (and this includes the smaller merchants, as well as the manufacturers) is at one in the determination that a modification of this 50 and 75 p.c. profit tax must be made without delay.

Sir Thomas White must now see what a fatal mistake it will be, for Canada's immediate and future trade position, if his taxation is put into law. Seeing this, he must not allow an overwhelming dignity to stand between him and the future welfare of Canada.

Our Pride in Exports.

I do not propose in this article to discuss the injury which this latest profit taxation will inflict upon Canada. That has been thoroughly covered in previous articles, and has been amply demonstrated by the evidence of material and immediate curtailment of industrial activity in every business centre.

Canada has been proudly pointing to her excess exports over imports of the past two years. Canada will know, when this export business has been pushed down to the level of imports by taxation, precisely where to place the responsibility. Such responsibility will be placed upon the head of the Minister of Finance who was found to have a lack of vision and refused to consult an oculist.

The Minister of Finance claims that he "needs the money." We all need the money, but that fact does not impel us to waylay the first respectable gentleman who comes in sight and command him to "stand and deliver." That sort of thing is not done in polite society, not even in impolite politics, and it certainly cannot be done in Canada.

If the revenue is still below requirements it would seem that the only logical source to draw upon would be a tax on incomes over $10,000 a year, followed, if necessary, by a graduated scale downward. It is absurd to claim that the cost of the machinery to collect this tax would be prohibitive, when the cost of the present proposal would represent scores of millions of dollars lost to the country.

Squarely and Fairly.

We want to look squarely and fairly at this question; we want to get out of our heads that this 50 and 75 p.c. tax will be restricted to munition companies; we want to realize that the small companies with limited capital (that have never been heard of on the stock exchange) will pay more into the state treasury than the companies with larger capitalization. When we fully realize these facts we will realize that the country's productive capacity is jeopardized and that the development of our inexhaustible natural resources will be checked, just at the critical moment when we have opened up a world-market for our industrial products, instead of selling our raw material in bulk to be manufactured in foreign countries.

Will Even Reduce Revenue.

It is imperative that Sir Thomas White immediately declare an absolute withdrawal of his budget amendment. The original excess profit tax of 25 p.c. over 7 p.c. will actually give him more revenue from business profits than he can hope to secure by a form of taxation that will reduce the buying power of the people and thus bring about a corresponding decrease in the output of those companies that have been contribut-

ing on the 25 p.c. taxation basis. Let us not lose sight of this eventuality.

Sir Thomas White is on trial, the jury being comprised of the people of Canada. Let me remind him that for the twelve months ended March 31, 1916, Canadian manufacturers exported no less than $242,000,000 of goods, compared with $249,000,000 exported by the agriculturalists. The manufacturers therefore can justly claim a clear half interest in the prosperity of the country, besides being an important factor in the consumptive market for the farmers' product. Those comparative figures show conclusively that it is not wise to discriminate against a section of Canada's business population, in the belief that that section is a negligible quantity. It is not a negligible quantity. So far, this section has given the Finance Minister its whole-hearted support. It has believed in him, but if the Minister's statesmanship cannot stand the test of a situation bristling with difficulties, his past successes will be attributed to the fact that they were built upon the success of the country and not upon any special attribute of individual acumen.

Political Opponents "Lying Low."

Sir Thomas White is at the cross-roads of his career. His political opponents know it, as do his friends, but his friends frankly warn him, whereas his political opponents are "lying low," in ambush, ready when our imports again overtake our exports, to put the searchlight of publicity upon a gigantic error.

Sir Thomas White may be under the impression that he has won the farmer with his Free Wheat, but the farmer merely has tasted blood, and Free Wheat alone will not satisfy his appetite for more concessions. Will the Minister fall between the two factions? He cannot play "both ends against the middle" in this case, as the "middle" is a chasm of political oblivion.

This may be straight talk, but the economic situation is critical. Canada will refuse to have its industrial house brought about its ears, by the whim of one man whose capacity for unerring seamanship has yet to be tried in foul weather.

ON OVERDOING A GOOD THING.

(Toronto Saturday Night, May 12, 1917)

Sir Thomas White must step with care or he will kill the goose that lays the golden egg. There is no disposition among Canadians to hide in a shell hole when the tax gatherer looms into view, but at the same time there is a limit at which taxation must stop or else enterprise and industry will be stifled. Take for example a company with a capital of $100,000 upon which a profit of 50 per cent. is made on the year's business. According to the schedule as laid down by the Minister of Finance the Government will get $27,000 of the $50,000 profits and the owners of the business $23,000. Or take another example, that of a private firm with a capital of $30,000, upon which is earned 30 per cent. or $9,000 per annum. Of this sum the Government takes in taxation $3,375 and the owners get the balance, which is $5,625. As the earnings increase the Government's share ever becomes larger, which is right enough up to a reasonable point, but when it comes to a Government taking $139,500 in taxation and leaving the owners of a business $60,500 it savors of confiscation rather than taxation. It is not at all beyond the realm of possibilities that a concern which made a hundred per cent. profit on its invested capital this year, might not be making a red cent a year hence. A man does not invest his capital in a new enterprise with the idea of obtaining only 7 or even 10 per cent. The possibilities of the non-success of any new business venture must be considered, and in considering it the investor rightly enough demands more than the current first mortgage rate which can be obtained without any risk to speak of. This feature should be very carefully weighed in any possible reconsideration of the present bill. Capital, like most things, follows the line of least resistance. If we are prepared to build a wall against capital by confiscating seventy-five per cent. of a concern's profits, then we must be prepared to see this capital slip off to other fields where it will receive less harsh treatment.

EVILS OF RETROACTIVE TAXATION.

The Wall Street Journal comments as follows regarding retroactive taxation, which is a feature of the Canadian business profits war tax act:—

"It is to be hoped that Congress will not resort to retroactive measures in providing revenue, even for the extraordinary requirements of war. Such form of taxation of income would be vicious, destructive of industry and confiscatory of investments, to say nothing of its constitutionality.

"It would be class legislation and individual proscription, because its burden would vary in every instance from what it was in every other instance. Uniformity would be impossible. It would be a tax not collectible out of the thing taxed. Therefore, it would have to be taken out of something else, probably new income, and would then be a double tax. To impose taxation on what has been spent or invested is not to tax income.

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